Press Release

Panacea Medical Technologies Private Limited

February 18, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs. 23.60 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded to the long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** from **ACUITE BBB- (read as ACUITE triple B minus)** and short term rating to **'ACUITE A4+' (read as ACUITE A four plus)** from **'ACUITE A3' (read as ACUITE A three)** to the Rs. 23.60 crore bank facilities of Panacea Medical Technologies Private Limited (PMPL). The outlook is **'Stable'**.

Rating downgrade reflects deteriorating business risk profile and more-than-expected decline in scale of operations and profitability. Revenues had declined to Rs.28.08 crore in FY2018 from Rs.33.46 crore in FY2017. Profit after Tax (PAT) is on declining trend marked by Rs.4.68 crores in FY2016, Rs.2.96 crores in FY2017 and Rs.1.39 crores in FY2018. Further, the working capital operations had deteriorated to 746 days in FY2018 from 402 days in FY2017 and 373 days in FY2016. However, the rating is supported by experienced and highly qualified management and comfortable financial risk profile of the company.

PMPL, incorporated in 1999, was promoted by Mr G.V Subrahmanyam. The company manufactures medical equipment for radiology and radiotherapy. It has tie-ups with Bhabha Atomic Research Centre (BARC) and Society for Applied Microwave Electronic Engineering and Research (SAMEER).

Analytical Approach

Acuité has considered the standalone financial and business risk profile of PMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  PMPL was incorporated in 1999. The Managing Director, Mr. Subramanyam has experience of over three decades in the medical equipment industry. The company is also supported by other highly qualified and experienced Directors, Ms. Valli, Ms. Bala Despande, Mr. Tarun Sharma and Mr. Y. Ramann with experience of more than two decades in the said business.

- **Comfortable financial risk profile**

  The financial risk profile of the company is marked by high net worth, comfortable gearing and healthy debt protection metrics. The tangible net worth stood high at Rs.47.12 crore as on 31 March, 2018 as against Rs.48.78 crore as on 31 March, 2017. The gearing (debt-to-equity) stood low at 0.33 times as on 31 March, 2018 as against 0.29 times as on 31 March, 2017. The total debt of Rs.15.73 crore includes term loan of Rs.11.24 crore from banks and research councils such as Biotechnology Industry Research Assistance Council (BIRAC) Technology Development Board (TDB), unsecured loans from related parties of Rs.0.27 crore and short term working capital borrowings of Rs. 4.22 crore as on 31 March, 2018. The interest coverage ratio (ICR) stood high at 3.14 times for FY2018 as against 2.53 times for FY2017. The net cash accruals to total debt (NCA/TD) stood at 0.14 times in FY2018 as against 0.26 times in FY2017. Acuité believes that the financial risk profile will remain comfortable on the back of regular capex and steady profitability.

- **Reputed clientele along with moderate order book**
  PMPL has technological collaboration and support from major government agencies. The company has installed various medical equipment in several hospitals including those run by the state government and charitable trusts. Further, PMPL has moderate order book position marked by current orders-in-hand of Rs.31.00 crore to be executed by January 2019, which leads to moderate revenue visibility over the medium term.

Weaknesses

- **Moderate scale of operations and profitability**
  The operations are at a moderate level. The revenue declined to Rs.28.08 crore for FY2018 from Rs.33.46 crore for FY2017. From April 2018 to January 2019, the company registered revenue to the tune of around Rs.25.00 crore (Provisional). The revenue depends on the number of successful bids and tenders released by the government in the financial year. The operating margins (EBIDTA) stood at 15.35 percent for FY2018 as against 15.88 percent for FY2017. Further, the Profit after tax (PAT) margin declined to 4.94 percent in FY2018 from 8.86 percent in FY2017.

- **Working capital intensive operations**
  The operations of PMPL are working capital intensive marked by high Gross Current Assets (GCA) of 746 days as against 402 days in FY2017. The high GCAs days are mainly on account of high inventory holding of 295 days in FY2018 as against 182 days in FY2017. Out of the total inventory of Rs.19.21 crore as on 31 March, 2018 (PY:Rs.14.07 crore) and proto-type inventory stood at around Rs.2.00 crore (PY:Rs. 5.72 crore). The prototype inventory is of new product and is expected to remain in the business for more than a year. The company had high debtors of 358 days as on 31 March, 2018 as against 170 days as on 31 March, 2017. The average working capital limit utilisation has been more than 75 percent in the last six months ended January 2019.

- **Exposure to foreign exchange fluctuations**
  The company imports about 25 percent (in FY2018) of raw material from various geographies and exports 10 to 20 percent (in FY2018) of its sales to developing countries. The company is, thus, exposed to forex fluctuation risk. However, the same is partly offset through natural hedging as the company maintains EEFC account and exports sales.

Liquidity Position

PMPL has moderate liquidity marked by declining net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.14 to 2.25 crore during the last three years through 2017-18. The company's operations are working capital intensive as marked by high gross current asset (GCA) days of 746 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the company remains utilized at more than 75 percent during the last 6 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.9.12 crore as on March 31, 2018. The current ratio of the group stands healthy at 4.40 times as on March 31, 2018.

Outlook: Stable

Acuité believes that PMPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues and profitability, thereby deteriorating the financial risk profile or resulting in further elongation of working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	28.08	33.46	26.33
EBITDA	Rs. Cr.	4.31	5.31	6.81
PAT	Rs. Cr.	1.39	2.96	4.68
EBITDA Margin	(%)	15.35	15.88	25.85
PAT Margin	(%)	4.94	8.86	17.77
ROCE	(%)	6.70	11.21	41.70
Total Debt/Tangible Net Worth	Times	0.33	0.29	0.64
PBDIT/Interest	Times	3.14	2.53	3.18
Total Debt/PBDIT	Times	3.11	2.28	1.76
Gross Current Assets (Days)	Days	746	402	373

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Nov-2017	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Letter of Credit	Short Term	1.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	1.10	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	2.40	ACUITE BBB- / Stable (Withdrawn)
	Term Loan	Long Term	4.50	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	3.00	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A3 (Reaffirmed)
26-Nov-2016	Cash Credit	Long Term	5.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.10	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	2.40	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	4.00	ACUITE A3 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00^	ACUITE BB+/ Stable (Downgraded from ACUITE BBB- /Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE BB+/ Stable (Downgraded from ACUITE BBB- /Stable)
Term loans	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+/ Stable (Downgraded from ACUITE BBB- /Stable)
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+/ Stable (Downgraded from ACUITE BBB- /Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00#	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00#	ACUITE A4+ (Downgraded from ACUITE A3)

**Sublimit of Cash Credit - Packing credit up to Rs. 1 crore.*
#Interchangeability of limit up to 50 per cent permitted within non fund based (LC to BG and vice versa)

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About Acuité Ratings & Research:
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